



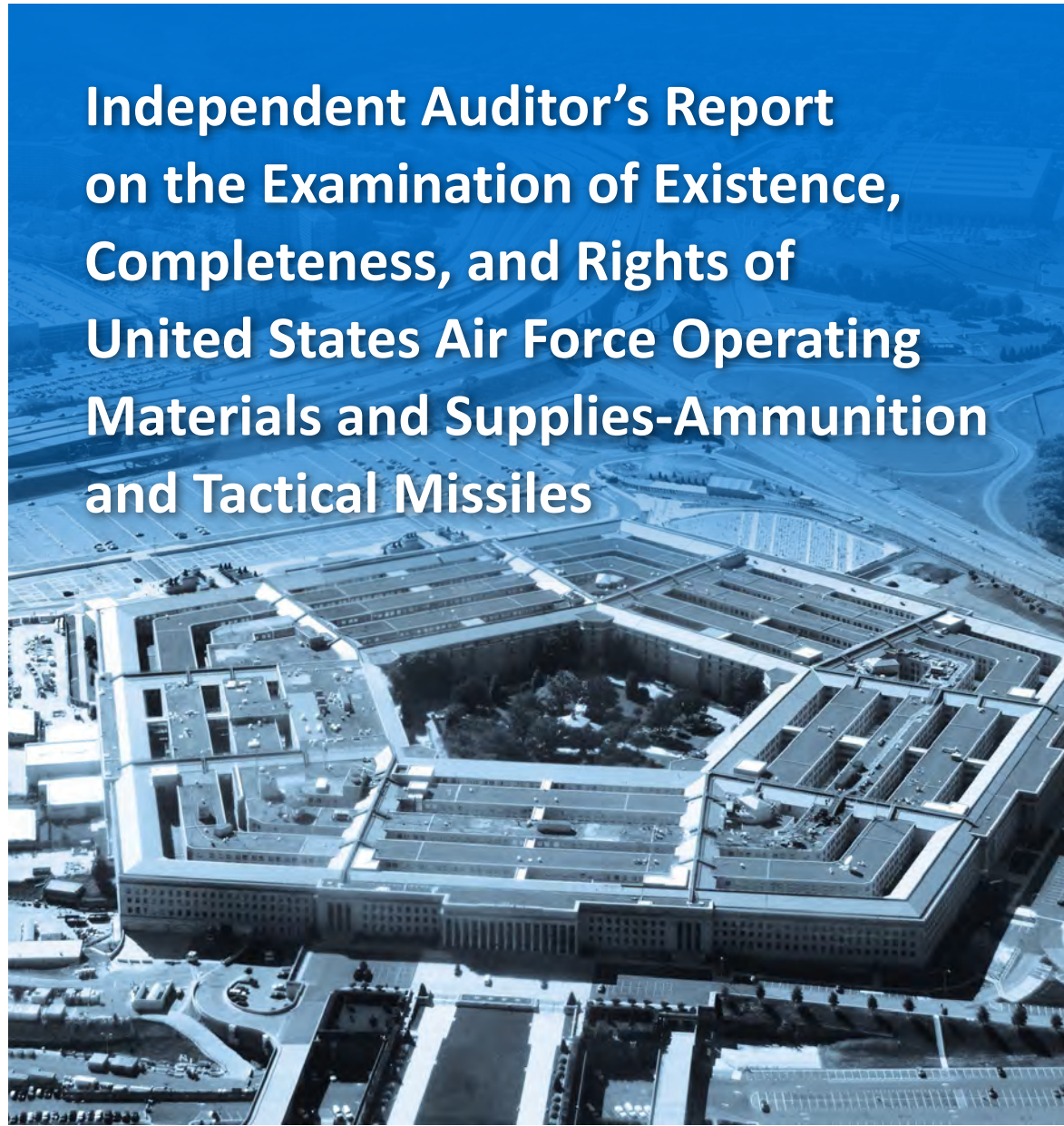
# INSPECTOR GENERAL

*U.S. Department of Defense*

AUGUST 21, 2015



## Independent Auditor's Report on the Examination of Existence, Completeness, and Rights of United States Air Force Operating Materials and Supplies-Ammunition and Tactical Missiles



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**INSPECTOR GENERAL  
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4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500**

August 21, 2015

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF  
FINANCIAL OFFICER, DOD  
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL  
MANAGEMENT AND COMPTROLLER)

SUBJECT: Independent Auditor's Report on the Examination of Existence, Completeness,  
and Rights of United States Air Force Operating Materials and Supplies-Ammunition  
and Tactical Missiles (Report No. DODIG-2015-164)

We are providing this report for your information and use. No written response to this report was required; therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945.

A handwritten signature in blue ink that reads "Lorin T. Venable".

Lorin T. Venable, CPA  
Assistant Inspector General  
Financial Management and Reporting





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## Audit Opinion

We examined management's assertion of audit readiness<sup>1</sup> for the existence, completeness, and rights of the Air Force's munitions<sup>2</sup> assets that were in the possession of the Air Force<sup>3</sup> as of June 30, 2014. We focused on the universe provided by Air Force from the accountable property system of record, Combat Ammunition System (CAS); however, we did not determine whether the CAS universe reconciled to the general ledger.

Air Force management is responsible for its assertion of audit readiness. Our responsibility is to express an opinion on the assertion based on our examination.

We conducted this examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and with generally accepted government auditing standards. Those standards require examining, on a test basis, evidence supporting Air Force's assertion of audit readiness of the existence, completeness, and rights of its munition assets in Air Force possession and performing other procedures we considered necessary. We believe our examination provides a reasonable basis for our opinion on management's assertion.

The Air Force asserted audit readiness of its Operating Materials and Supplies munitions assets on June 30, 2014. Because Air Force personnel regularly use, expend, or transfer munitions, the Air Force provided a universe as of January 1, 2015, to test assets located in the Continental United States and a universe as of April 1, 2015, to test assets located

<sup>1</sup> Audit readiness per the November 2013 "DoD Financial Improvement and Audit Readiness Guidance." Specifically, Appendix C, Wave 3 – Mission Critical Asset Existence, Completeness and Rights Audit Key Supporting Documents.

<sup>2</sup> Munitions included in the Air Force assertion were ammunition and tactical missiles.

<sup>3</sup> The Air Force only included munitions physically possessed by the Air Force and excluded all munitions held by other services and contractors.



outside the continental US. The January 1, 2015, Air Force munitions universe consisted of 121,421 lot numbers, which included 373,300,545 assets. The April 1, 2015, Air Force munitions universe consisted of 120,834 lot numbers, which included 367,848,644 assets.

We tested a nonstatistical sample<sup>4</sup> of 12,168,779 assets for existence, and 1,792,004 assets for completeness.<sup>5</sup> We compared the CAS records to the quantities physically stored at selected Air Force bases when we tested for existence. For some instances when the asset was no longer physically located at the base,<sup>6</sup> we relied on other evidence to verify the asset's existence.

During completeness testing, we selected lot numbers from each Air Force base we visited and compared the observed quantities to the quantities reported in CAS.

We identified a deficiency related to Air Force controls over rights documentation. Specifically, the Financial Improvement and Audit Readiness guidance for the rights assertion requires certain key supporting documentation to validate the rights assertion. These documents should include contract documentation or, if that documentation is not available, other physical indicators of ownership rights. These physical indicators included assets that were located on the reporting entity facility and other evidence of exclusive rights to use the assets such as unique markings.

The Air Force identified that the DD Form 1348-1<sup>7</sup> was evidence of Air Force rights to the asset. However, we could not rely on the DD Form 1348-1 or the physical location of the assets as evidence of exclusive right of ownership of the assets. Specifically, during testing we identified an Army-owned asset, a foreign military-owned asset, and an entire Department of Defense Activity Address Code of 61 lots in our universe that contained only Navy assets, which were included in the assertion universe.

The testing exceptions we identified were physically located on Air Force bases and also had the DD Form 1348-1. The Air Force could not provide evidence of controls or standard operating procedures to receive, record, and maintain documentation for non-Air Force-owned assets. As a result, we could not perform adequate testing to conclude on Air Force rights of the Air Force-held munitions assets. Consequently, we could not opine on the Air Force rights assertion on Air Force-held munitions.

In our opinion, except for Air Force significant internal control weaknesses related to rights, the Air Force assertion of audit readiness for the existence and completeness of Air Force possessed munitions as of June 30, 2014, is fairly stated in accordance with DoD Financial

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<sup>4</sup> The DoD Office of the Inspector General Quantitative Methods and Analysis Division selected a random sample of lot numbers from the universe of Continental United States and outside the continental US sites the team nonstatistically selected.

<sup>5</sup> Examples of munitions tested are missiles and bombs to grenades and small arms ammunition.

<sup>6</sup> Some reasons the munitions were no longer physically present was that Air Force officials had already issued the asset to the flight line, used the asset, or had shipped the munitions to another base.

<sup>7</sup> The DD Form 1348-1, "Issue Release/Receipt Document," includes shipping and receiving information. Specifically, it includes the lot number, quantity shipped, condition codes, and shipment dates.

Improvement and Audit Readiness Guidance Wave 3–Mission Critical Asset Existence and Completeness criteria and to the accountable property system of record. The Table below provides a summary of the results of our existence and completeness testing.

*Table. Summary of Existence and Completeness Testing*

	Existence (in lot numbers*)	Completeness (in lot numbers*)
Total sample	3,390	439
Passed	3,384	438
Exceptions	6	1

\* An identification number assigned to a particular quantity of munitions produced. It is used to track munitions manufactured or procured under a specific contract, period, specifications, and/or conditions.

## Internal Controls

Office of Management and Budget Circular A-123, “Management’s Responsibility for Internal Control,” December 21, 2004, requires management to develop and maintain effective internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Internal controls are organization, policies, and procedures to help program and financial managers achieve results and safeguard the integrity of their programs. During our examination, we identified internal control concerns, but with the exception of controls over the rights of Air Force–owned assets, they did not prevent us from reaching an opinion on the Air Force’s assertion of existence and completeness to CAS.

We identified the following internal control concerns.

- The Air Force did not establish adequate controls over the rights of Air Force–held munitions. Specifically, Air Force Instruction 21-201<sup>8</sup> permits bases to manage these assets in accountable CAS<sup>9</sup> as Air Force–owned without any ownership code in CAS that identified the assets as non-Air Force–owned.

Air Force personnel stated that managing non-Air Force–owned assets in CAS allows for enhanced accountability, safety, and security of the assets. However, they did not provide specific implementation guidance to ensure the individual bases maintain adequate documentation to support those assets. Air Force personnel informed us that there were no overall controls or standard operating procedures for the bases to follow to receive, record, and maintain documentation for non-Air Force–owned assets. Air Force personnel were also unsure of how each base compiled their list of non-Air Force–owned assets.

<sup>8</sup> Air Force Instruction 21-201, “Conventional Munitions Management,” April 9, 2014.

<sup>9</sup> Air Force also maintains a nonaccountable CAS database where non-Air Force–owned assets are generally entered.

The Air Force relies on Air Force munition personnel at each base to communicate and coordinate with other government personnel for the receipt and storage of all non-Air Force-owned assets. In addition, Air Force personnel stated that it could be possible for a non-Air Force-owned asset to arrive at a base and be managed as an Air Force-owned asset without the base knowing it was non-Air Force owned.

The Air Force could not provide any compensating controls to verify the assets identified were non-Air Force-owned assets. The Air Force should establish consistent guidance and internal controls to receive, record, and maintain documentation for non-Air Force-owned assets.

Air Force personnel stated that they are working to implement an ownership code in CAS by March 2017 which will give the Air Force visibility over what munitions are owned by the Air Force and what munitions are non-Air Force owned. In addition, they plan to find a DoD-wide solution which will give the Air Force ready access to documentation that supports rights and will consider updating its internal instruction to include policies and procedures that address rights and ownership.

- Our munitions existence and completeness testing identified three sample items that the Air Force either did not enter or did not remove from the accountable property system of record in a timely manner. For example, the Air Force personnel at Naval Air Station Joint Reserve Base-Carswell, Texas did not timely record the shipment to remove 30 assets from their records once the personnel shipped the asset to another Air Force base. As a result, the Naval Air Station over reported 30 assets in CAS as of January 1, 2015.

The Air Force should ensure that the responsible Munitions Accountable Systems Officer take timely and appropriate actions to consistently enter and remove munitions from the accountable property system of record when the munitions are received or transferred, destroyed or expended.

- The Air Force policy for inventories is not in accordance with DoD policy because Air Force policy does not always require inventories of non-Air Force assets in their facilities that are stored as a courtesy. Specifically, DoD Manual 4140.01<sup>10</sup> requires the DoD Component that has physical custody of material in storage to maintain accountability for that material in that DoD Component's system of record, regardless of which DoD Component owns the material. Further, the Manual states storage activities will conduct physical inventories and take applicable actions necessary to ensure that the physical on-hand quantity equals the total item property record quantity.

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<sup>10</sup> DoD Manual 4140.01, Volume 5, "DoD Supply Chain Materiel Management Procedures: Delivery of Materiel," February 10, 2014.



Air Force Instruction 21-201 states that perpetual inventory<sup>11</sup> can be performed in place of, and as a substitute for, the annual and semi-annual inventory. However, the Instruction only requires Munitions Accountable Systems Officers to inventory nonaccountable courtesy assets when they perform the annual and semi-annual inventory. By allowing the perpetual inventories as a substitute for annual and semiannual inventories, there is a potential that the nonaccountable, courtesy-stored assets would not be inventoried.

We determined that MacDill Air Force Base performed perpetual inventories in place of annual and semiannual inventories. MacDill Air Force Base confirmed that it did not include courtesy-stored assets in its perpetual inventories.<sup>12</sup> The Air Force should update policy to be consistent with DoD policy to perform and document inventories of courtesy held munitions.

Improving these internal control processes will help the Air Force repeat, and sustain the munitions audit readiness process during future financial statement examinations.

We provided a discussion draft of this report to the Office of the Secretary of the Air Force (Financial Management and Comptroller), who provided technical comments that we have incorporated as appropriate. This report will be made publicly available pursuant to section 8M, paragraph (b)(1)(A) of the Inspector General Act of 1978, as amended. However, this report is intended solely for the information and use of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the Assistant Secretary of the Air Force (Financial Management and Comptroller) and is not intended to be used and should not be used by anyone else.



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<sup>11</sup> A perpetual inventory is any method that results in counting the entire munitions inventory three times a year.

<sup>12</sup> MacDill personnel stated that they performed inventories of courtesy stored assets, but did not provide documentation to support that statement.



# **Whistleblower Protection**

## **U.S. DEPARTMENT OF DEFENSE**

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